



State of Vermont
Department of Taxes
133 State Street
Montpelier, VT 05633-1401

Agency of Administration

September 8, 2009

To Members of the Joint Fiscal Committee:

Act 54 of the 2009 General Assembly contained several provisions affecting revenues to the Education Fund. One of them is before this committee for consideration today. We supported the City of Burlington’s efforts to extend debt financing within the current boundaries of their tax increment financing (TIF) district and appreciate their efforts to find common ground with the Tax Department in achieving their ends — further development within the district. We believe the proposal before you today strikes the necessary balance between local economic development needs and administrative concerns, and we applaud the City’s continued efforts to maintain a strong economy and vibrant downtown culture.

That said, I must also voice strong concern about the steady erosion to the education property tax base posed by the expansion and proliferation of exemptions.

Current Use has grown to be a \$34 million program. In addition to foregone education tax revenue, the cost of reimbursing municipalities reached nearly \$10 million last year, for a total cost of \$43.6 million in FY ‘09, a growth of nearly 36 percent over the last three years.



Likewise, income sensitivity for property taxes has grown dramatically. Estimates for program costs to the Education Fund in the current year are \$140 million, growing to \$153 million the following year. Comparison figures for FY '05 and '06 are \$88 million and \$103 million, respectively. This represents growth of 36 percent between FY 2006 and 2010.

TIF districts account for a small fraction of the total exemptions, but as the number of districts grows and the amount of valuable commercial property is taken off the education grand list, the revenue lost to the Education Fund is increasing. Each of these exemptions, in isolation, serves worthy causes. Taken together, and left unchecked, they threaten the equity of our education funding system.

Local option taxes, while not directly an Education Fund issue, represent an equity issue for communities in regard to their ability to raise revenue. Communities with the greatest ability to avail themselves of the benefits of Act 54 and TIF districts are, for the most part, the same communities that have the ability to benefit from and use local option taxes. Those communities reap a double benefit. They are allowed use of their property tax for their own benefit through TIFs and they can also keep broad-based taxes like the local option sales tax in their own community. These measures individually are beneficial for those communities involved but create inequity among communities.

Education spending increases stand alone as a problem. School budgets have grown 32 percent over the last five years (FY05-10). Education Fund expenditures have grown 23 percent over that period of time. But as our spending grows faster than our revenue growth in the education fund the inequities are being exacerbated.

These pressures and others on the Education Fund may for the first time since the passage of Act 60 require an increase in the annual recommendation for the statewide education tax rates this year.

The *Brigham* decision found that funding public education with local property taxes produced wide disparities in funding and limited children's opportunity for an equal education, in violation of the state Constitution. Act 60 passed in response to that decision, but subsequent decisions to extend existing property tax programs or introduce new exemptions tend to serve local interests while undermining the common good.

One has to ask, then, what communities like Whiting —Amanda Brigham's hometown —think as we move further away from equity and as spending increases faster than our revenue.

It is important for us to support economic growth and efforts by communities like Burlington to achieve those goals. Growth is essential to a vibrant economy. We must find ways to support the various worthy policy goals without building inequities into the present property tax system. Together we must develop a long term sustainable solution.

Sincerely,

A handwritten signature in black ink that reads "Richard Westman". The signature is written in a cursive, slightly slanted style.

Richard Westman
Commissioner of Taxes